USDA Foreign Agricultural Service
GAIN Report
Global Agriculture Information Network

Voluntary Report - public distribution

Date: 5/27/2003

GAIN Report Number: E23085

European Union

Agricultural Situation

CAP Reform Overview

2003

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Report Highlights:
The current reform of the CAP is nearing its end game. The current CAP, initial reform proposals and possible outcomes are presented in this report.

Includes PSD Changes: No
Includes Trade Matrix: No
Unscheduled Report
Brussels USEU [BE2]
[E2]

Introduction

The reform of the EU's Common Agricultural Policy (sometimes referred to as the Mid Term Review or MTR), is coming to a stage were an agreement in June may be possible.

The purpose of this report is to set out the current EU agricultural policy, the changes proposed by the Commission in January and where current discussions on these points appear to be heading.

It is not clear whether or not an agreement will be reached in June, but positive signals from many Member States and the Commission indicate that this is now a distinct possibility.

One key area of discussion is the degree of decoupling. Whether there is full decoupling, as Commissioner Fischler has staked considerable political capital on, or partial decoupling as preferred by several Member States, notably France which rejects the decoupled approach, is not yet clear.

Fully decoupled payments would see a large part of EU farm payments shift from the WTO Blue box (trade distorting, allowed within limits) to the Green box (non-trade distorting), which would give the EU scope for negotiations in the WTO Doha Round. If some form of partial decoupling is adopted, the exact detail of the agreement would determine the status of the EU's agricultural subsidies in relation to the WTO boxes.

The Greek Presidency and the European Commission are both pushing for an agreement to be reached at the June Agricultural Council

Time Frame

The European Parliament must give it's Opinion on the CAP reform proposals, likely at the 2 to 5 June Plenary Session of the European parliament. The Opinion is in no way binding on the Commission or Council, but is a legal formality that must be completed prior to any CAP reform agreement.

It can be expected that the Greek Presidency will continue to look for a compromise Agreement which it can then present to the June Agricultural Council.

The next Agriculture Council is slated for the 11-12 June in Luxembourg, with the possibility that it could be extended into the weekend should more time be required to reach a compromise.

There is scope for an additional Agriculture Council in June if required

It should be noted that during the Agenda 2000 reforms, after the Agriculture Ministers had reached agreement, the Heads of State subsequently revised the deal at the Berlin Summit. Informed sources suggest that this is not likely this time around.

Mid Term Review Proposals and Outlook

The Status Quo refers to the current situation of the CAP. The January proposals are those tabled by the Commission in January 2003. The May outlook is current thoughts on likely outcomes, however, should there be an agreement it's form will probably be different.

Decoupling refers to changing some current farm payments, which are paid for producing specific crops, to single farm payments regardless of what is produced. In other words, the current payments will take on a new form. For example, the Headage payments are currently paid per animal under various schemes. Under the decoupled scheme, the value of these payments would be calculated and added to a per farm payment which the farmer automatically receives whether or not he/she decides to continue producing that particular output, in this case livestock. The rationale is to encourage the farmer to produce based on market orientation and not for the highest subsidy returns.

Cross compliance refers to the rules that would have to be respected in order to receive decoupled payments. Modulation is the reduction of payments per farm, with the largest pay outs reduced the most, similar to income taxes being higher for higher incomes. The savings would be transferred into the rural development budget. Degressivity is the across the board reduction of payments.

	Status Quo	January 2003 Proposals	May 2003 Outlook
Decoupling	Various arable premia linked to the production of specific crops. Partial decoupling only due to the alignment of the cereals and oilseeds payments Animal premia linked to the requirement of producing beef or dairy	Single decoupled farm income payment can be split into payment rights attached to eligible hectares. The single farm income payments includes the payments for: cereals, oilseeds, protein crops, grain legumes, rice, flax, hemp linseed, starch potatoes (50% decoupled), durum wheat supplement, dried fodder (after reform), beef, sheep, milk from 2004, aid for seeds, certain regionalized aids. Further crops can follow. The following payments are not included: durum wheat quality premium, protein crop supplement, crop-specific payments for rice, flax, hemp linseed, potato starch processors), dried fodder (processors). Member states may opt for balancing payment levels within certain limits. Totals for aid, conditions and ceilings are annexed to the base regulation. Only perennial crops are excluded, fruit and vegetables on arable land are not excluded.	The outlook for any agreement is for some form of partial decoupling. Several versions of partial decoupling are being discussed. This could be along the lines of a single farm payment with certain payments left coupled to protect least favored areas. A German proposal is to have a single per hectare arable aid with some livestock aid remaining coupled and some in a per hectare aid. However, this involves redistributive effects so the former idea is more likely. Another form proposed is to give the livestock aids to Member States in a national envelope so they can distribute it as they see best with a possibility of top up payments from Member States. A sticking point is fears that land will be abandoned in less favored areas. Measures proposed to counter this include not decoupling LFA payments, allowing additional national funding for LFAs or lower rates of modulation for LFAs. Fruit and vegetables now likely to be excluded

	Status Quo	January 2003 Proposals	May 2003 Outlook
Cross-Compliance	Optional use of reductions of direct payments for enforcing statuary environmental legislation and so-called specific environmental requirements	Compulsory cross-compliance as a whole farm approach: direct payments conditional on the respect of statuary legal standards (environment, food safety, and animal welfare) and keeping land in good agricultural conditions in line with environmental requirements. Partial or complete reduction of direct payments for non respect of obligations from circa 40 legislative acts applying at the farm level, good farming practices or not maintaining permanent pasture.	Presidency non-paper suggests that only 18 standards would be applied, with a progressive introduction between 2005 and 2007.
CO_2 Credits	None (this is a new proposal).	45 €/ha for energy crops (contract with processor required). Maximum guaranteed area of 1,5 M ha for entire EU	
Farm Audits	The establishment (not the operation) of certification systems is an option under the Rural Development package	Farm audits compulsory for all farms receiving more than 5000 € Audits will account for all relevant material flows and on-farm processes. Financial support covering 80% of costs for farmers is eligible under Rural Development. Obligatory participation for farms receiving more than EUR 15,000 or with a turnover over EUR 100,000	

	Status Quo	January 2003 Proposals	May 2003 Outlook
Dynamic Modulation	Optional reduction of direct payments up to 20 % Unspent money remains in Member State to be spend on "accompanying measures	Dynamic modulation of 1 % in 2006, rising to a total reduction of 19 % by 2012. Savings shifted to Rural Development (any measure) through the EU budget (adding 500-600 mio € per year). Distribution key based on agricultural area, farm employment and prosperity. 5000 € for each farm exempted from the cut. Member States may further exempt 3000 € for each labour unit above two. Between EUR 5,000 and EUR 50,000 an intermediate rate of reduction is applied 1% in 2006 rising to 6% by 2012 transferred to Rural Development budget the rest to finance new CAP reforms.	There appears to be some support for an earlier start than 2006, as well as a higher rate. France has called for a 4% rate from 2004 onwards.
State aid	Ex-ante notification and authorisation	Consideration of block exemptions with a view to speed up implementation Ex-post reporting and monitoring	

	Status Quo	January 2003 Proposals	May 2003 Outlook
Cereals	Intervention price at 101.31 €/t; Direct payments of 63 €/t multiplied by the reference yield Monthly increments applied in seven steps each adding 0.93 €/t to the intervention price	Final intervention price cut of 5 % (from the 20 % proposed in Agenda 2000), down to 95.35 €/t Increase direct payment to EUR 66/t, decoupled. (Compensation following the Agenda 2000 approach, *i.e. at a rate of 50 %*) Abolition of monthly increments Suppress refunds for starch production for cereals and starch potatoes	There is firm opposition to the 5% price cut, but as the market outlook make it more of a necessity, some form of intervention price cut is likely.
Rye	Rye intervention at the general cereals level	Abolition of rye intervention	
Durum Wheat	Specific supplementary payment: • 344.50 €/ha in "traditional" areas • 138.90 €/ha in "established" areas.	Reduction of the supplementary payment to 250 €/ha in "traditional areas", phased in over three years No supplement in "established areas". Introduction of a quality top-up of 15 €/t applicable everywhere. Premium of EUR 40/ha in "traditional areas", within MGA limit, provided certain quantities of seed are used from varieties selected for their quality for semolina and pasta production	
Set-aside	10 % set aside, exempting farmers producing less than annually 92 t of cereals (calculated with the reference yields) Non-food (industrial) crops can be grown on set aside land (contract with processor required).	Continuation of the individual historical set-aside obligation (based on the 10 % set-aside requirement) on long-term-oriented (10 years), non-rotational basis; Exemptions for organic farms and farms less than 20 ha as well as non-rotational set-aside if it gives environmental benefits. Compliance with necessary land management requirements (part of cross-compliance) Abolition of the non-food regime on set-aside land.	This is being eased, with a likely authorization to plant industrial crops on set-aside land (as currently), but not protein crops. Also the long term nature (10 years) may be diluted or removed.

	Status Quo	January 2003 Proposals	May 2003 Outlook
Rice	Intervention price at 298.35 €/t (paddy rice) Direct payment of 52.65 €/t, paid per hectare, within Maximum Guaranteed Areas	50 % reduction of intervention price to a basic price of 150 €/t, triggering private storage; Safety net intervention below 120 €/t. Compensation payments of 177 €/t of which a smaller part (75 €/t) will be granted as a crop-specific payment. Reduction of the MGAs to the 1999-2001 average or the current MGA, whichever is the lower.	Some form of rice reform is expected, though the details could change. It is far from clear if rice reform would include a mandate for Article 28 negotiations (Margin of Preference).
Oilseeds	Alignment of the area payment for oilseeds and cereals	No specific measures foreseen. Increase in payment the same as for cereal payments to EUR 66/t, decoupled, to compensate the 5% intervention price cut.	
Dried Fodder	Direct payments: 68.83 €/t for dehydrated fodder 38.64 €/t for sun dried fodder	Income payment for farmers as a part of the single farm income payment (envelope of 160 Mio €) Simplified single support to industry for dehydrated and sun-dried fodder with a reduced payment of 33 €/t Industry aid phased out over 4 years Farmer aid given according to deliveries and national guaranteed quantities Abolition of 5% franchise	
Nuts	Multi-annual quality and marketing improvement plans, run by producers groups. Specific measures repealed in 1996 but plans may continue to their 10-years term with the last plans expiring in 2006/07. No specific support measures afterwards.	Flat-rate payment of 100 €/ha with MS top-up option up to an additional 109 €/ha Maximum guaranteed area 800,000 ha. Areas will not be eligible to the new support regime as long as they are covered by active improvement plans.	
Protein	Specific supplementary payment of 9,5 €/t times the reference yield	New stand-alone protein supplement of 55.57 €/ha (9,5 €/t times the average reference yields of regions where protein crops are grown) MGA of 1.4 m ha.	

	Status Quo	January 2003 Proposals	May 2003 Outlook
Beef	Basic price at 2224 €/t with private storage possible at 103 % of this price. Buying-in tenders at safety net intervention level of 1560 €/t; Headage payment within limits with 150 € for steers (two payments/life), 210 € for bulls and 200 € for suckler cows (latter two, annual). The latter requires 15 % heifers. Additional slaughter premium of 80 € (bulls, steers, cows) and 50 € (calves) Eligibility criteria: up to 1,8 LU/ha (from 01.01.03, currently 1,9 LU), head limit of 90 (with derogation) Extensification premium: 100 € per premium for a stocking density of 1,4 LU/ha. Another option for MS: 80 € per premium for a stocking density below 1.4 LU/ha and 40 € for 1.4 to 1.8 LU/ha (limits valid as from 2002). National envelope	No specific measure foreseen, however major implications of decoupling. Reduction of incentives towards intensive beef production (decoupling); Reinforced cross-compliance conditions including land management conditions; Strengthening of quality and support for environmentally friendly beef production through the 2nd pillar; Land dedicated to permanent pasture on 12/31/2002 must be maintained in that state.	
Dairy	Quota-regime valid until 2008 Phased in reduction of intervention price by 15% from 2005/6 onwards Cow premium rising from 5.75 €/t to 17.24 €/t of quota from 2005/6 onwards plus additional payment ("top-up premium and/or area payment) Global increase of quota by 2.39 %	Quota regime extended to 2014/15 Agenda 2000 reform (15% price cut over three years, compensated by extra quota and direct payments) brought forward one year with extra 10% price cut over two years, compensated All price cuts asymmetric, i.e. butter = 5 x –7%/year, SMP, 5 x –3.5%/year 2 1% quota increases in 2007, 2008 Direct payments decoupled from 2004 Ceiling to butter intervention – over 30,000 t – buying in by tender.	Dairy regime likely to be included in any final agreement, however, it remains unclear whether there would be an increase in quota, what the final price cut would be (though likely to be asymmetric), also the timeframe for decoupling uncertain. The extension of the regime could be until 2013 which coincides with the EU's budgetary timing.

Related USEU reports:

Report Number	Title	Date released
E23076	Fischler reaffirms CAP reform rationale and directions	5/20/2003
E23071	April Agricultural Council	5/14/2003
E23059	CAP Reform Budget Update	4/15/2003
E23025	CAP Reform - simplification of state aid	2/24/2003

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